

State of Montana  
Office of the Legislative Auditor  
REPORT TO THE LEGISLATURE

GUARANTEED STUDENT LOAN PROGRAM  
COMMISSIONER OF HIGHER EDUCATION

Financial Audit for the  
Fiscal Year Ended June 30, 1987

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Office of the Legislative Auditor  
GUARANTEED STUDENT LOAN PROGRAM  
COMMISSIONER OF HIGHER EDUCATION

Financial Audit for the  
Fiscal Year Ended June 30, 1987

Audit staff involved in this audit include: Mary Bryson, Julie Barr, and Jody Alke.



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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

September 1987

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET  
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI  
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the audit of the Commissioner of Higher Education's Guaranteed Student Loan Program (GSL) for the fiscal year ended June 30, 1987.

The Montana Guaranteed Student Loan Program, established by the 46th Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. The federal government guarantees the loans made by lending institutions. The federal government also advances start-up money and makes administrative cost reimbursements to GSL.

The Guaranteed Student Loan Program contracts with the United Student Aid Fund (USAF) to collect the one percent guarantee fee, default payments, and statistical information from individual students. The money collected and statistical information is submitted to GSL. Guarantee fee revenue is recognized each year based upon the average life of a loan which is estimated at eight years. The remaining loan fees received are recorded as deferred revenue.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.  
Scott A. Seacat  
Legislative Auditor



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Office of the Legislative Auditor

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LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the Balance Sheet of the Guaranteed Student Loan Program-Special Revenue Fund of the state of Montana as of June 30, 1987, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements presented are only for the Guaranteed Student Loan Program. Accordingly, the accompanying financial statements are not intended to present the financial position of the state of Montana as of June 30, 1987, or the results of its operations and changes in its fund balances for the fiscal year then ended, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the Guaranteed Student Loan Program as of June 30, 1987, and the results of its operations and changes in its fund balance for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

September 1, 1987

COMMISSIONER OF HIGHER EDUCATION  
GUARANTEED STUDENT LOAN PROGRAM  
BALANCE SHEET  
JUNE 30, 1987

ASSETS

Cash in Treasury	\$ 32,033
Interest Receivable	866
Accounts Receivable	156,113
Due from Federal Government	892,770
Investments	4,333,000
Expense Advance	<u>240</u>
 TOTAL ASSETS	 <u>\$5,415,022</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$1,017,035
Due to Federal Government	795,835
Deferred Revenue	<u>2,268,433</u>
 TOTAL Liabilities	 <u>\$4,081,303</u>

Fund Balances:

Restricted (Note 5)	\$ 223,037
Unrestricted	<u>1,110,682</u>
 TOTAL Fund Balance	 <u>\$1,333,719</u>

TOTAL LIABILITIES AND FUND BALANCES	<u>\$5,415,022</u>
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The accompanying notes are an integral part of this financial statement.



COMMISSIONER OF HIGHER EDUCATION  
GUARANTEED STUDENT LOAN PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
REVENUE:			
Guarantee Fee Income	\$ 588,500	\$ 490,080	\$ ( 98,420)
Administrative Cost Allowance	100,000	321,462	221,462
Investment Income	<u>250,000</u>	<u>285,787</u>	<u>35,787</u>
TOTAL REVENUES	<u>\$ 938,500</u>	<u>\$1,097,329</u>	<u>\$ 158,829</u>
EXPENDITURES:			
Administrative Costs	\$1,196,799	\$ 836,166	\$ 360,633
Equipment	<u>0</u>	<u>28,955</u>	<u>(28,955)</u>
TOTAL EXPENDITURES	<u>\$1,196,799</u>	<u>\$ 865,121</u>	<u>\$ 331,678</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (258,299)	\$ 232,208	\$ 490,507
PRIOR YEAR ADJUSTMENT	0	34,693	34,693
BEGINNING FUND BALANCE - July 1, 1986	<u>1,066,818</u>	<u>1,066,818</u>	<u>0</u>
ENDING FUND BALANCE - June 30, 1987	<u>\$ 808,519</u>	<u>\$1,333,719</u>	<u>\$ 525,200</u>

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION

GUARANTEED STUDENT LOAN PROGRAM

Notes to the Financial Statements  
For the Fiscal Year Ending June 30, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The state of Montana Guaranteed Student Loan (GSL) Program is located in the Office of the Commissioner of Higher Education. As an Other Special Revenue Fund, it accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The program was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the state of Montana.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measureable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

2. EMPLOYEES' RETIREMENT SYSTEM

The Guaranteed Student Loan program employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. The employee contributes 6.0 percent of his gross wages. In FY 87, \$4,517 was contributed to PERS in employer contributions.

Under TRS, the state contributes 7.428 percent of an employee's gross wages to TRS. The employee contributes 7.044 percent of his gross wages. In FY 87, \$4,204 was contributed to TRS in employer contributions.

The state's policy is to fund accrued pension costs. Based on their most recent actuarial valuation reports, both the PERS and the TRS were actuarially sound.

3. INVESTMENTS

Investments are units purchased in the state of Montana's Short-Term Investment Pool and are reflected at cost. The June 30, 1987 balance reflects the following:

<u>Number of Units</u>	<u>Cost</u>
<u>43,330</u>	<u>\$4,333,000</u>

4. FEDERAL ADVANCES PAYABLE

The program has received \$734,173 in the first six years of its operations from the United States Government, Department of Education, to assist the program in its start-up stages. These funds are restricted in their use and may be recalled by the federal government if the reserve maintained by the program exceeds certain requirements. At June 30, 1987, the program's reserve had not exceeded the requirements.

5. RESTRICTED INCOME FUND BALANCE

This fund balance accounts for all interest earnings on the advances discussed in Note 4 as program regulations require these interest earnings be maintained for claim payments.

6. ADMINISTRATIVE COST ALLOWANCE REVENUE

The Administrative Cost Allowance revenue is \$77,582 of accrued revenue which is dependent upon the federal appropriation.

7. NET LOAN LOSS EXPENSE

The United Student Aid Fund (USAF) pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death of the borrower. The Guaranteed Student Loan (GSL) program reimburses USAF for the amounts paid on death and default claims. The GSL program then seeks reimbursement from the Department of Education for payments made to USAF for the death and default claims.

The extent of this activity for fiscal year 1987 is shown below:

	<u>1987</u>
Death and Default Claims Loss	\$ 4,094,927
Death and Default Claims Insured by the Department of Education	\$(3,279,740)
Default and Default Claims to be received from the Department of Education	\$ (815,187)

## 8. NET LOAN RECOVERIES

The United Student Aid Fund (USAF) seeks collection of loans that have been defaulted. Upon collection of all or a portion of a defaulted loan, USAF deducts an amount, not to exceed 30 percent of the collected amount, as a collection fee, and gives the balance to the Guaranteed Student Loan (GSL) program. Since the GSL program has already received payment for the defaulted loan from the Department of Education previously, the amount of the net loan recovery is owed back to the Department of Education.

The extent of this activity for fiscal year 1987 is shown below:

	<u>1987</u>
Loan Recoveries	\$ 408,146
Loan Recoveries Due to the Department of Education	(61,662)
Loan Recoveries Remitted to the Department of Education	(346,484)

## 9. PRIOR YEAR ADJUSTMENTS

In FY 87, the Department of Education paid Administrative Cost Allowances that had been requested in FY's 85 and 86. The FY 85 amount paid was \$1,734 lower than the amount accrued in the FY 85 financial statements. The FY 86 amount paid was \$35,372 higher than the amount accrued in the FY 86 financial statements. The prior year adjustment shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance reflects, in part, adjustments made to the FY 87 financial statements to properly reflect prior year revenues.



